

**EFFECTS OF TAXPAYER EDUCATION ON MONTHLY RENTAL INCOME TAX  
COMPLIANCE IN THIKA TOWN CENTRAL BUSINESS DISTRICT**

**KENNEDY OTIENO OSINGO**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE  
AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISTRATION AT  
JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

**SEPTEMBER 2020**

## **DECLARATION**

This project is my original work and has not been presented for a degree in any other University.

**Signature:** \_\_\_\_\_

**Osingo Kennedy Otieno**

**HDB 336-C16-4155/2016**

**Date:** \_\_\_\_\_

This research project has been submitted for examination with my approval as the University supervisor

**Signature:** \_\_\_\_\_

**Dr. Nekesa Marion.**

Principal/Lecturer

Kenya School of Revenue Administration

**Date:** \_\_\_\_\_

## **DEDICATION**

I would like to dedicate this document to My family and the KESRA Community most specifically Mr. Levi Mwikhweso, Pst. Konyango Tobias, PhD and Miss Marion Nekesa, PhD and the whole student community with whom we worked as a team to achieve this .

## **ACKNOWLEDGEMENTS**

I would like to acknowledge the efforts of my dedicated lecturers and supervisors, specifically Miss Marion Nekesa, PhD for the overwhelming assistance and support that she has given me in the process of putting together this document.

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>DEDICATION</b> .....	iii
<b>ACKNOWLEDGEMENTS</b> .....	iv
<b>TABLE OF CONTENTS</b> .....	v
<b>LIST OF TABLES</b> .....	ix
<b>LIST OF FIGURES</b> .....	x
<b>LIST OF APPENDICES</b> .....	xi
<b>LIST OF ABBREVIATIONS AND ACRONYMS</b> .....	xii
<b>ABSTRACT</b> .....	xiii
<b>CHAPTER ONE</b> .....	1
<b>INTRODUCTION</b> .....	1
1.1 Background Information .....	1
1.2 Problem Statement.....	5
1.3 Objectives of the Study .....	7
1.4 Research Questions .....	7
1.5 Justification of the Study .....	8
1.6 Scope of the Study.....	8
<b>CHAPTER TWO</b> .....	9
<b>LITERATURE REVIEW</b> .....	9
2.1 Introduction .....	9
2.2 Theoretical framework .....	9
2.3 Theory of Education .....	9
2.4 The Tax Morale Theory.....	10
2.5 Taxpayer Education.....	10

2.5.1 Taxpayer Education and voluntary compliance .....	11
2.5.2 Taxpayer Education and Tax Evasion/Avoidance .....	12
2.6 Tax Compliance.....	12
2.6.1 Attitudes and perceptions of the taxpayers with regard to compliance levels ....	13
2.6.2 Tax Compliance with regard to Taxpayers Level of Awareness .....	15
2.6.3 Rental Income Tax (Monthly Rental Income Tax vs. Annual Rental Income Tax)16	
2.7 Conceptual Framework.....	18
<b>CHAPTER THREE.....</b>	<b>19</b>
<b>METHODOLOGY .....</b>	<b>19</b>
3.1 Introduction .....	19
3.2 Research Design .....	19
3.3 Target Population .....	19
3.4 Sampling Frame.....	20
3.5 Sample and sampling technique .....	20
3.6 Data collection, methods and Procedure .....	21
3.7 Pilot Test.....	21
3.8 Data analysis and Presentation .....	22
<b>CHAPTER FOUR .....</b>	<b>24</b>
<b>DATA ANALYSIS, RESULTS AND DISCUSSION .....</b>	<b>24</b>
4.1 Response Rate .....	24
4.2 Data Validity and Reliability.....	24
4.3 Descriptive Statistics .....	25
4.4 Descriptive Statistics .....	25
4.4.1 The effects of Taxpayer education on return filing of monthly rental income ...	26

4.4.2 The effects of Taxpayer Education on the Process of Calculation of Monthly Rental Income Tax payable .....	27
4.4.3 Effect of Taxpayer education on the process of payment of Monthly Rental Income Tax .....	28
4.4.4 Monthly Rental Income Compliance.....	29
4.5 Inferential Analysis.....	30
4.5.1 Correlation Analysis .....	30
4.6 Regression Analysis .....	32
4.6.1 Model Summary .....	32
4.6.2 Analysis of Variance (ANOVA) .....	33
4.6.3: Regression Coefficients.....	34
4.7 Discussions on key Findings .....	34
4.7.1 Return Filing and Monthly Rental Income Compliance .....	34
4.7.2 Tax Payment Process and Monthly Rental Income Compliance .....	35
4.7.3 Tax Calculation Process and Monthly Rental Income Compliance .....	35
4.7.4 Monthly Rental Income Compliance.....	36
<b>CHAPTER FIVE .....</b>	<b>37</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>37</b>
5.1 Introduction .....	37
5.2 Summary Findings.....	37
5.2.1 Taxpayer education on Return Filing .....	37
5.2.2 Taxpayer education on Tax Payment Process .....	38
5.2.3 Taxpayer education Tax Calculation Process.....	38
5.3 Conclusion.....	39
5.3.1 Return Filing.....	39

5.3.2 Tax Payment Process.....	39
5.3.3 Tax Calculations Process.....	40
5.4 Recommendations .....	40
5.4 Limitations of the Study .....	41
5.5 Suggestions for Further Research.....	41
<b>REFERENCES</b> .....	42
<b>APENDICES</b> .....	45

## LIST OF TABLES

Table 3.1: Measurement of Variable (Likert Scale) .....	23
Table 4.1 Reliability Coefficients.....	24
Table 4.1: Descriptive Statistic Results .....	25
Table 4.2: Return Filing on Monthly Rental Income Tax .....	26
Table 4.3: The effects of Taxpayer Education on the Process of Calculation of Monthly Rental Income Tax payable .....	27
Table 4.4 Effect of Taxpayer education on the process of payment of Monthly Rental Income Tax .....	29
Table 4.5: Regression Analysis .....	32

## LIST OF FIGURES

Figure 2.1: Conceptual Framework adopted from Mukabi Thesis.....	18
------------------------------------------------------------------	----

## LIST OF APPENDICES

Appendix I: Questionnaire.....	45
--------------------------------	----

## **LIST OF ABBREVIATIONS AND ACRONYMS**

ANOVA	- Analysis of variance
CBB	- Central business district
ICPAK	-Institute of Certified Public Accountants of Kenya
IOTA	-Intra-European Organization of Tax Administrations
IRS	- Internal Revenue Service of the USA
ITA	- Income Tax Act
MRI	- Monthly rental income
OECD	-The Organization for Economic Co-operation and Development
SME	- Small and medium enterprises
SPSS	- Statistical package for social sciences
TPA	- Tax Procedures Act

## ABSTRACT

Taxpayer education has become a major component in the tax systems in inspiring sense of civic duty among the taxpayers as well as promoting and expanding revenue collection. This is important especially when legislations have been enacted to target a particular group of taxpayers or to create an entirely new tax-head (Ionel, 2013). Therefore, as taxation laws change with technological advancement for a particular country, for the purposes of this research paper Kenya, there is need to educate the taxpayers and inform them accordingly on the legislated changes. The absence of this may give rise to cases of involuntary noncompliance or tax evasion. Therefore, this study's main objective was to study the effects of taxpayer education on monthly rental income tax compliance. This research study employed descriptive research design where questionnaires were used to collect qualitative data. The study was conducted within Thika Town CBD and it targeted all Landlords with residential property within Thika CBD as its population of focus. According to Thika KRA Station Block Management System, the town is divided into about eight blocks. It's estimated that over 200 residential houses have been built within the CBD at the time of the study. Hence, a sample of 50 residential houses were selected in a random sampling process. A total of 50 semi-structured questionnaires were designed with open ended questions and close ended questions to aid qualitative and quantitative data collection. A pilot test was conducted on 10 landlords with aim of testing the validity and reliability of the questionnaires. This helped to cite inconsistencies which were afterwards corrected in a thorough editing process. The study established that Monthly Rental income tax compliance is dependent on educating the tax payers on return filing, tax calculation and the process of tax payment. The study in conclusion asserts that taxpayer education is a strong pillar is spurring tax compliance among the landlords hence, KRA through the government should invest more especially the taxpayers in the rural areas in order to inform them on the changes in the and less complex methods of calculating and remitting tax without incurring costs.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background Information**

Taxpayer education is a major endeavour that has been undertaken by most Tax authorities worldwide to sensitize the taxpayers on need to remit tax on their incomes earned (Haituti 2014). This is because taxation is a complex and dynamic component of any economy. Since it started in ancient times, then kingdoms formulated rules/laws that governed the complex system of revenue generation and to date, even in the face of postmodern civilization, the whole issue of taxation keeps changing as economic climates keep shifting for different economies. Every country require revenue to finance its operations and to provide essential services to its citizens. The extent of service provision for instance, infrastructure, health care, security etc.; largely depends on the country's ability to finance her budget from the revenue collected. There are various ways through which economies generate revenues for example through fees, fines, charges etc.; but the most common and major source of revenue is tax. As stated, the main intention of this research was to study the effects of tax payer on monthly rental income tax compliance to determine whether their capacity to be tax compliant is influenced by the level of their tax knowledge. As this study found out, tax knowledge to the taxpayer (in our case the landlords); is vital as for any other tax payer because a concise understanding of tax laws and policies enable the taxpayers to fulfill their statutory obligations (Xin, et al, 2015). For instance, filing returns in time, report tax affairs truthfully and compute tax liabilities truthfully. This is because lack of appropriate tax knowledge may lead to unintentional non-compliance behaviuor.

## **Tax payer Education on global perspective**

In the course of this studies, there was a general understanding derived that from others studies across the globe that assert that taxpayer's voluntary compliance is pegged on their perception and attitude they develop towards a tax system. The fact is that attitude and perception is shaped by the availability of information, in this case tax information (Ionel, 2013). Lacks of this information usually cause involuntary non-compliance by the taxpayers. Voluntary compliance is based on strong sense of civic duty (Ionel, 2013). By this proposition, the researcher meant that there could be a way around the use of force and punishment in enforcing tax laws in a country. In other words, this study established that it is important to make the taxpayers aware of their duty to their country in contributing to its development through tax remittance rather than coming up with laws and imposing them on the taxpayers without educating them on the same. The interaction between taxation and cultural values namely honesty, equity and civic duty; helps to foster strong effect on voluntary compliance.

Further to the above, most studies gave various impressions in relation to tax laws bit was noted in entirety that the taxpayers have developed a notion that tax burden should be denied at all cost (Hastuti 2014). According to the quoted research study, which was conducted among a sample of university students, the general assumption of tax injustice was a signature in almost all the responses. For this reason, there is need to conduct a thorough study on the effects or the role of taxpayer education in ensuring that the taxpayers are compliant (Hastuti 2014). This particular study aimed at going into the depths of tax ignorance to unravel the effectiveness of tax education so as to come up with appropriate conclusions which would help in enlightening taxpayers and policy makers by conferring in the best mode possible tax knowledge to them.

In the proceedings of the World Economic Forum 2012-2013, the Global Competitiveness Report asserted that the business community in France and a number of other economies decries the distortive tendency of their tax regimes to business decisions. Most taxpayers across the world believe that tax policies are not fair, and they are unfairly charged (Klaus Schwab 2013). Out this study, an underlined fact behind the above-mentioned premise was that the economies ought to come up with policies that would help to cultivate positive perception towards tax collection and the tax regimes. This could only be done by rolling out an elaborate tax education plan that would address the knowledge gap that is between the taxpayers and the actual tax collection. Therefore, effective tax education system that is simple and can be understood by all the stakeholders would help any economy to dispel these fears of negative perception of the tax regimes and boost voluntary compliance (Xin, et al, 2015). Hence, this study investigated ways in which the tax education had shaped the rental income taxpayers' compliance behavior.

### **Taxpayer Education in Kenya**

Kenya Revenue Authority (KRA), a government agency that was instituted by an act parliament in 1995; has done a great job in tax collection. And besides KRA, several legislations have since been enacted by the Parliament of Kenya and the Treasury to spur the efficiency and effectiveness in its operations as far as tax collection is concerned. The presence of these legislations brings into the picture the complexity of the tax system (Monyo 2013). This is because these laws are published in the technical legal language. The presence of the law automatically ushers in the aspect of enforcement and punishment. The result is that even the taxpayers who were ignorant of the law would be treated equally in its enforcement. KRA being that it's their duty to collect taxes; it is also their duty to educate the taxpayers on their obligations. This was the main purpose of this research

study and it looked keenly at the effectiveness of taxpayer education with regard to rental income tax compliance. It has also been displayed that tax knowledge improves the individual's awareness and ethics to reduce their tendency for non-compliance (HinXin, et al, 2015). HinXin (2015) asserted in his study that tax administrators are encouraged to use communications as the main tool to deliver relevant tax knowledge. It is in public domain that KRA has tried its level best to communicate the legislative changes through public relations, audiovisual and print media as well as the social media tools like twitter and Facebook. The nagging questions remains, has this been effective enough to influence monthly rental income tax compliance? How consistent is it and it is simpler for all the consumers of that tax knowledge? This study aimed at getting reliable and actionable answers to these questions and more and at the end of it all, the recommendations will be very accurate and could be used to solve the problems that are related this topic of study.

### **Monthly Rental Income Tax**

The Domestic Taxes department of KRA in the past few years have reported very low revenue realized from monthly rental income (MRI). This resulted into amendments of the laws governing the administration of MRI tax and these have consequently brought about complexity in understanding the rental income tax as stipulated in the Tax Procedures Act of 2015 and the Finance Act 2016. For instance, until 31.12.2015, rent income was only accountable for annually. From 01.01.2016 however, landlords earning Kshs 144,000 but below Kshs 10m per annum, can declare their rent income monthly. This information was extracted from the 6<sup>th</sup> Corporate Plan and the Tax Procedures Act 2015.

This study committed to explore and find out if the Kenyan taxpayers especially the landlords are informed accordingly on their obligations. The research further studied the variables involved in taxpayer education and if it was fulfilling its intended purpose.

## **1.2 Problem Statement**

Monthly rental income tax was introduced to taxpayers in January 2016 having been legislated as an act of parliament and inscribed in the Tax Procedures Act 2015. Before being enforced, KRA used several techniques to introduce it to the targeted taxpayers. These methods are still being used and active, for example BMS, print and audiovisual media advertisements et cetera. All these promotional techniques are meant to educate taxpayers; that is, conferring tax knowledge to the public which has seen the authority's ability to collect revenue increased tremendously (Oyugi 2008). The level of compliance among the monthly rental income earners has been affected by such factors as: Tax audits and enforcement, compliance checks and the taxpayer's own willingness to develop their nation through payment of tax at the right time and the right amounts during self-assessments (Oyugi 2008). Studies have been conducted to ascertain the cause of noncompliance; some reasons why taxpayers may be non-compliant include flexible tax morale; low education; rules that are too complicated to follow; taxable activities that are manipulated to avoid tax; a perception that the risk of being caught is low; aversion towards the public sector; and a culture of corruption (Ndirangu 2014). Although monthly rental income tax revenue is very negligible making up to less than 1% of the total revenue collections (6<sup>th</sup> Corporate Plan 2016), it is a rapidly growing sector given that real estate industry has expanded tremendously over the years, very little research has been conducted to ascertain the tax compliance of the level of the players in this sector. The aspect of rental properties is characterised by micro, small and medium enterprises which is fairly

unregulated sector of economy hence, aspects of tax evasion is realised. This study's aim was to establish the effects of taxpayer education on monthly rental income tax compliance among the taxpayers who derive their income monthly from renting out their property. Therefore, it specifically singled out monthly rental income tax which is a rapidly expanding source revenue and attempts to bring the landlords into the tax net is picking up at a slow pace while the industry growing tremendously.

OECD Report (2015) and several other studies from different scholars indicated mixture of factors influencing tax compliance such as: risk-based audit, quality service delivery as well as use of enforcement measures. A lot of studies have been conducted and the findings assert a positive relationship between taxpayer education and tax compliance, for instance a study by Kasipillai (2003). In the study done by Kuria, Ngumi and Rugami (2013) on the factors affecting rental income tax compliance among landlords in Kilifi municipality in Kenya, established that there was a positive relationship between Taxpayer Education and Rental Income Tax Compliance. Since this study and several other studies, a lot of changes have been made in the law governing rental income tax including introduction of monthly rental income tax through Tax Procedures Act 2015. Although knowledge about taxation is assumed to be important for preference and attitudes towards taxation and compliance thereof, there is little research that explicitly considers how taxpayers' education influences tax compliance (Ndirangu 2014). Despite these noted developments, no study has been conducted to ascertain the effects of taxpayer education on monthly rental income tax. Hence this study is inclined to fill in this knowledge gap by answering such questions as: What is the effect of taxpayer education on return on monthly rental income tax compliance in Thika Town? How does taxpayer education on

payment process affect monthly rental tax compliance in Thika Town? How does taxpayer education on tax calculation affect monthly rental income tax compliance in Thika Town?

### **1.3 Objectives of the Study**

#### **General objective**

To study the effects of taxpayer education on monthly rental income tax compliance in Thika Town Central Business District.

#### **Specific objectives**

- i. To determine the effect of taxpayer education on return filing on monthly rental income tax compliance in Thika Town CBD
- ii. To establish the effect of taxpayer education on payment processes on monthly rental tax compliance in Thika Town CBD
- iii. To assess the effect of taxpayer education on tax calculation on monthly rental income tax compliance in Thika Town CBD

### **1.4 Research Questions**

- i. What is the effect of taxpayer education on return on monthly rental income tax compliance in Thika Town?
- ii. How does taxpayer education on payment process affect monthly rental tax compliance in Thika Town?
- iii. How does taxpayer education on tax calculation affect monthly rental income tax compliance in Thika Town?

### **1.5 Justification of the Study**

This study sought to dig deep into the question of increasing level of non-compliance in monthly rental income tax. Taxpayer education being one of the tools used by KRA to sensitize the landlords of their need to be tax compliant has been employed widely. Therefore, this study was to find out the extent at which taxpayer education has influenced the landlords to be compliant with respect to their rented-out property.

The findings of this study was meant to encourage tax compliance by providing actionable recommendations useful in improving the existing techniques used in taxpayer education and maybe help KRA to invent new techniques to replace the obsolete ones that are in use by KRA.

### **1.6 Scope of the Study**

This study was conducted exclusively in Thika East Tax Locality. This covers the entire Thika Town and its environs. This is a developing area and commercial housing as well as residential houses for rent is on the rise hence the area is most appropriate for this study. This research project will be based on sources that were published from the year 2000 to August 2017; calendar years.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter focused on studying different research works that had been advanced by different scholars and recorded in books, journals, reports, magazines and many other sources. This helped to spur the purpose of this research into having a clear picture on how the subject of tax education has impacted tax compliance over the years. There was also specific attention drawn to monthly rental income tax versus annual rental income tax in relation to tax education. This section further critiqued and identified gaps in these studies so as find out how to bridge these gaps.

#### **2.2 Theoretical framework**

There are common features that were noted in the previous studies in the field of taxation with regard to taxpayer education and tax compliance. This study was on two theories that is just a sample of a number of theories that have been put forward by various scholars.

#### **2.3 Theory of Education**

The theory was put forth by Suppes, (1974), he gives the purpose of education in relation to the fulfilment of the democratic ethic is to provide social conditions that support persons in having a range of experiences necessary to develop whatever capacities, interests and desires each individual might have. Especially given the rapidly changing nature of the society, schools must support the widest diversity of intellectual and practical development for all the students so that they might prepare themselves for many possible life activities. A fact supported by Parsons, (2008) taxpayers would be much willing to pay taxes if they are educated on their obligation and rights, how to use the tax systems such as i-Tax in the

filing of the return and making payments. Education as well changes the non-compliance culture to a compliant one especially when the taxpayer realizes that the tax he/she pays directly contribute to the growth of his/her nation (OECD 2010).

#### **2.4 The Tax Morale Theory**

The tax morale theory was put forth by Kirchler, (2007) and Frey, (1998) from the Cologne school of tax Psychology. According to the proponents of this school of thought, Tax morale can be termed as an individual factor that motivates a person to comply with his/her tax obligation, as a determinant of the tax behaviour, tax morale aim at explaining how and why a taxpayer morality influences their tax behaviour. Taxpayers tend to avoid paying taxes if they feel that their competitors are getting away with the tax evasion. They are also likely to evade the tax if the people around do not pay the taxes and vice versa says Mwangi, (2014) in his research; he further asserts the taxpayers also tend to comply if they feel that the government is honest, democratic and participatory in that the taxpayers feel that they have a meaningful role in governance.

#### **2.5 Taxpayer Education**

As seen earlier in chapter one, taxpayer education is an integral component in boosting voluntary compliance with tax obligations. It is unfortunate that most cases of noncompliance are due to ignorance of the taxpayer. Provision of tax education affects the decision of the taxpayer with regard to compliance (Machogu&Amayi, 2013). Machogu and Amayi(2013) continue to assert that tax education confers tax knowledge which is a recipe for the taxpayers' behavioural change towards tax compliance. The problems relating to behaviour in tax administration was contributed by a modifiable factor and one of these factors is knowledge.

### **2.5.1 Taxpayer Education and voluntary compliance**

For a long time, there has been hostility between the taxpayers and tax collectors not only in Kenya, but almost across the globe. In fact if a taxpayer would be given a choice, they would choose not to comply. This implies that the taxpayers view the tax system as either unfair or they do not own the need to support their government through collection of revenue. Therefore lack of tax knowledge causes the taxpayers to assume neutrality; whether to be compliant or noncompliant (Rini, 2014). In her studies that engaged university students, Rini (2014) tried to dig deep to find out the perception of the student with regard to tax compliance and their general position insinuated that tax burden should be denied at all cost. This takes me to question how deep the tax knowledge runs among the youth and their perception of voluntary compliance.

The stability of a nation highly depends on the country's ability to fund its activities as well as supply public goods without strain. This is only possible for a society which has a deep seated sense of civic duty (Xin, et al, 2015). This will result to a very rewarding society of voluntarily compliant taxpayers. Most studies seek to address this issue in a helicopter-like-view manner. It is like they study the situation from the sky and make conclusions superficially. Tax education ought to be taken seriously more than it is being handled at present. As cited by Kuria, Ngumi and Rugami (2013), tax education should be taken as seriously as elementary education especially, in this era of advanced technology. According to the study done in Australia on how to curb tax illiteracy, one of the recommendations was that tax knowledge be introduced in the education curriculum from the elementary level (Kuria, Ngumi and Rugami 2013). This is true because continuous tax education programmes encourage the taxpayers to comply at the same time deter them from noncompliance.

### **2.5.2 Taxpayer Education and Tax Evasion/Avoidance**

Inasmuch as there is much to benefit from tax education, there are also shortcomings of tax knowledge. This is because tax knowledge improves individuals' awareness and ethics to reduce their tendencies to be noncompliant. This could be a recipe of tax evasion or avoidance. Tax evasion is unlawful but tax avoidance is not illegal. The knowledge of taxation could also lead to cases of tax evasion as some citizen would ride in the assumption that most tax laws are either complex or unjust (Ionel2015). This could be the reason why some taxpayers pay their tax in fear of negative consequences and hence, the moment they realize there is lapse in policy implantation, they would evade the whole payment in totality.

Therefore, focusing on the study, such gaps that create opportunities for noncompliance were addressed appropriately so that tax education enhancement does not result to revenue loss. At the same time, most of these studies have not given way forward on how to incorporate their studies to address other forms of taxes other than their areas of study. This research work was holistic and thorough such that its recommendations did not only addressed the gaps in tax education in administering rental income tax, but also other related tax heads.

### **2.6 Tax Compliance**

Tax compliance is statutory. When a person is not tax compliant, it means they are in contravention of the law. In our case study, the Monthly Rental Income Tax; Section 6A of Income Tax Cap 470 stipulates among other legislations that MRI is due and payable on or before 20<sup>th</sup> of the month following the month of income. Any registered taxpayer who does remit tax or files returns as per the stated above stated law is deemed to be tax

compliant. The general behaviour of taxpayers tends to show unresponsiveness of taxpayers towards complying with the instituted tax laws. There is a direct correlation between taxpayers' knowledge on tax matters and compliance (Gitaru 2017). Studies by different researchers cite two types compliance with regard to taxation: voluntary compliance and involuntary compliance. This brings into the picture two scenarios where one is an environment of aggressive enforcement practice of tax laws. Whereas the other is an environment where a taxpayers understands their role as citizens. The later scenario presents an environment where there is a strong sense of civic duty prevails and the taxpayers are in possession of the intended tax knowledge and they need not to be coaxed to remit taxes hence, voluntary compliance.

This brought us to scrutinize further two variables that seemed to affect much tax compliance levels and that are taxpayer levels of awareness and attitudes and perceptions of taxpayers towards compliance. However, it is important to note that the study was not able to establish the taxpayers' honesty regarding the amount of revenue they declare. The compliance here refers to the taxpayers efforts to file their returns on the stipulated time with regard to the law.

### **2.6.1 Attitudes and perceptions of the taxpayers with regard to compliance levels**

As depicted by our theoretical framework, it evident that tax compliance is seriously reliant on the attitudes and perception of the taxpayers towards any tax authority of a particular country. Fischer says tax evasion is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries and it is influenced by many factors among them attitudes and perceptions (Afield 2014). For example, The Internal Revenue Service, IRS of the United States being

depicted as the most balanced tax authority in its revenue collection still cites the unbalanced compliance. They assert that overall high compliance is deceptive. This is specifically on taxpayers whose taxes are not reliant on third party to remit. Actually over 50% of the taxpayers who have obligations, which do not require third parties to deduct and pay on their behalf, are said to be noncompliant.

The main cause of this is cited to be psychological, cultural and economic factors. A part from this, public opinion on the tax authorities is also very vital in tax enforcement. According to the OECD paper of 2014 Compliance Risk Management, the Forum on Tax Administration Compliance Sub-group asserts the following on public opinion:

Public opinion represents an important consideration for revenue authorities. The regard in which an authority is held within the community has a direct impact not only upon the community attitude towards compliance but also upon the ability of the revenue authority to successfully administer the taxation system — and upon the morale of revenue agency staff (OECD 2014).

For a long period of time KRA used strict enforcement of the law in tax collection, a phenomenon that changed with the introduction of the 6<sup>th</sup> Corporate Plan. This plan meant to ‘lure’ taxpayers into the tax bracket by implementing the trust and facilitation strategy. It is important to note that it is not easy to trust uninformed individual who does not have a clue with regard to their obligation. Tax education is a very vital point to initiate such a plan and this is being executed currently. This is why this study is very timely and appropriate.

This attitude being contagious has been spread across hence it has become a culture: the tax system is unfair. This has in turn shaped the taxpayers attitude perceptions. This has had real effect in evolution of noncompliance across the board. Taxpayer education changes behaviour of an individual and when this occurs, the tendency of taxpayers to respond for call to be tax compliant becomes prompt and positive.

### **2.6.2 Tax Compliance with regard to Taxpayers Level of Awareness**

Education, as a demographic variable relates to the taxpayers ability to comprehend and comply or not comply with the tax laws (Xin, et al, 2015). The aspects of education has been distinguished: “the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities” (IOTA 2009). This knowledge is considered to be important for attitudes towards tax compliance. Persons both corporate and individuals are subject to taxation (Perez 2018). The amount of taxes you owe is based on your income. You must pay taxes throughout the year. People who earn more income have higher tax rates than those who earn less (Deyganto 2018), this means tax rates get progressively higher the more you earn. You can reduce your taxes by taking advantage of various tax benefits.

Every person, organization, company, or non-profit organization is subject to the income tax. "Subject to income tax" means that people and organizations must report their income and calculate their tax. Some organizations are exempt from tax. But they still have to file returns, and their tax-exempt status could be revoked if the organization fails to meet certain criteria.

Taxpayers who are informed are not a difficult people to deal with as far tax administration is concerned. Therefore, KRA as Kenya's tax authority ought to champion literacy campaigns to improve the taxpayers' ability to understand tax laws (Lumumba, et al, 2010).

### **2.6.3 Rental Income Tax (Monthly Rental Income Tax vs. Annual Rental Income Tax)**

Section 3(2) (iii) of ITA Cap 470 charges tax on gains or profits from any right granted to another person for the use or occupation of property. The word "property" is not given any special definition by the Act for its own purposes. It follows therefore that the definition to be applied is the one contained in the Interpretation and General Provisions Act Cap 2 of the Laws of Kenya. This legal definition applies but not limited to individuals who owns property (land and buildings) in which they intend to earn income through leasing or renting out. The rental income tax has existed since independence and it was being paid annually. But in 2015, the Tax Procedures Act introduced a more simplified tax known as monthly rental income tax (MRI).

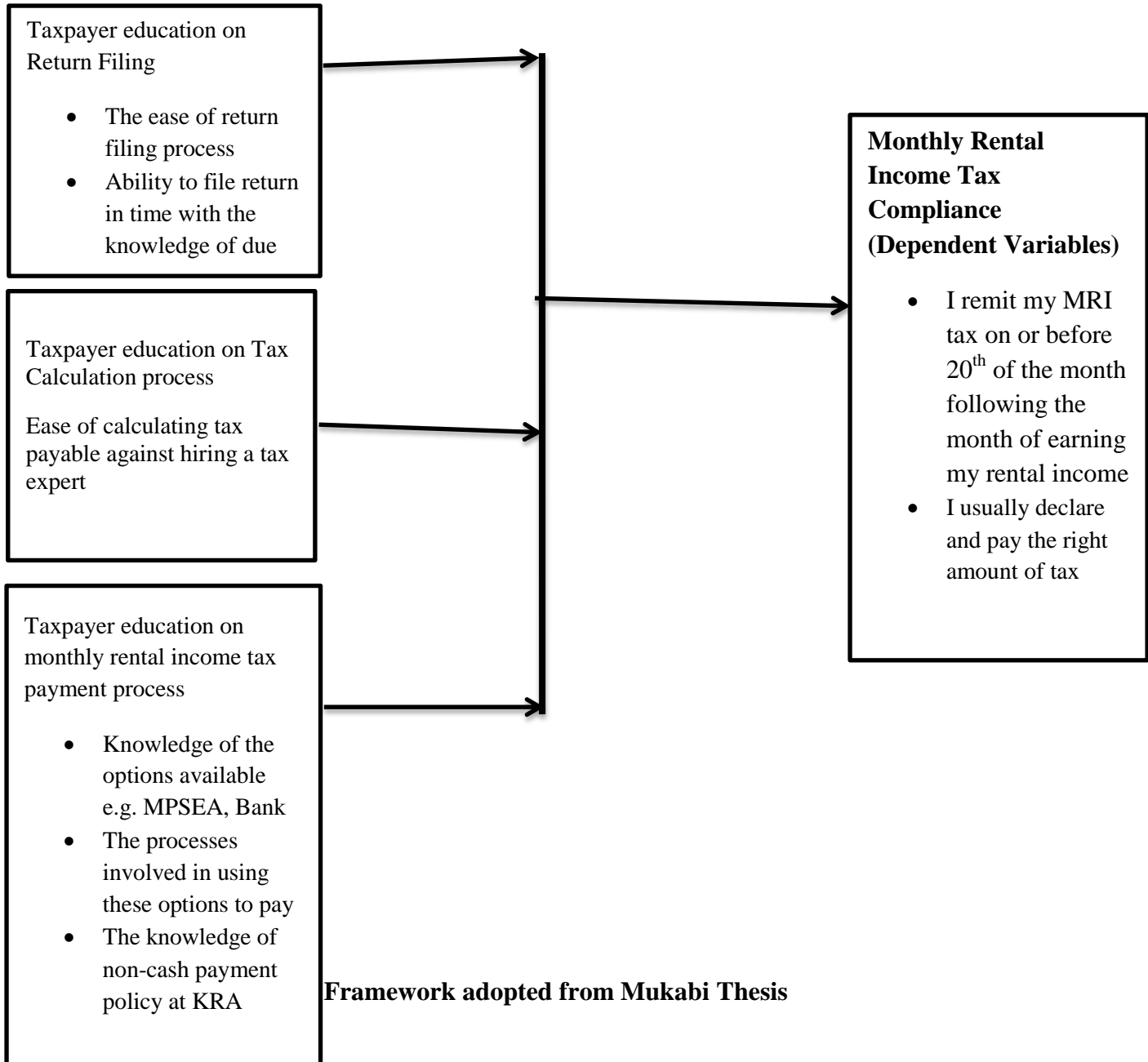
Monthly Rental Income (MRI) is charged on individuals whose rent income is not less KES 12000( KES 144000 annually) but does not exceed KES 10M annually. This was a simplified method since the landlords are required to file their returns on rent income on or before 20<sup>th</sup> day of the month following the month of income. MRI was further modified in 2017 which saw the implementation of Finance Act 2016 which introduced the tax as a withholding tax. This for starts applied to chain tenants like banks, chain stores, supermarkets etc.

However, it is the choice of the tenants to choose which tax regime would fit their needs. Hence, some landlords would opt to remain the older regime of annual filing of rental income tax. In regard to this type of rental income tax, some of the main features will now be considered. The charge is on “gains or profits” so that from the gross rents there must be deducted the expenses allowable under Section 15 of ITA. Firstly, under Section 15 (1) of ITA, there can be deducted all the usual expenses of a revenue nature e.g. rates, repairs mortgage interest. Servants’ wages, light, water etc. Secondly, under Section 15 (2) there are special deductions available in the circumstances specified. Bad debts may qualify for deduction where the rent was assessed on a receivable basis and subsequently there is default in payment by the tenant (Section 15 (2) (a) of ITA. Under Section 15(2) (b) ITA wear and tear deduction are due where a property is furnished or partly furnished. In this connection the furniture of a durable nature such as chairs, table, cookers, refrigerators, carpets, and curtains would attract wear & tear at 12% whilst soft furnishings such blankets, sheets towels, cushions etc. would be better treated, along with crockery cutlery, cooking utensils etc. Under Section 15 (2) (g) and an allowance made for diminutions in value. Wear and Tear should be restricted to the period of letting where a property is not let for whole 12 Months.

The above information is highly technical in terms of legal obligation involved. Therefore it is prudent for KRA to avail simplified information that a taxpayer with average understanding can comprehend. This KRA has strived to in sectors. This is the reason why my study is going to use this form of tax as a case study. The policy changes and its complexity in understanding make it most appropriate in understanding the effects of tax education in promoting tax compliance

## 2.7 Conceptual Framework

### Taxpayer Education Variables (Independent Variables)



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter is a blueprint on how the research was conducted. It outlines the research design, target population, sample design and procedures, data collection instruments, data analysis, limitations of the study and research ethics.

#### **3.2 Research Design**

This study used descriptive research design to assess the effectiveness of the current taxpayer education programs in improving tax compliance among monthly rental Income earners. The design includes enquiries on phenomena or association among them and describes the data to draw conclusions about the population characteristics or phenomenon being studied (Kothari 2012). Researcher in this context sought to measure such items as frequency of filing of returns, preferences of people either annual or MRI regimes of filing returns, or similar data. Moreover, the accuracy, being factual and systematic nature of descriptive design puts this design ahead of others hence making it appropriate for the study. Descriptive approach will be appropriate in this study as it will give detailed enquiries to get the right information that will be useful to describe the effect of taxpayer education on tax compliance among the rental income earners in Thika Town Central Business District.

#### **3.3 Target Population**

This study targeted owners of residential and commercial buildings within Thika Town central business district (CBD) that are rented out. According to KRA block management system (BMS), the CBD has been demarcated and divided into about 5 blocks(this is

subject to recent review due to development of new buildings). Each block contains about 50-60 buildings. This implies that almost 500 landlords are taxpayers who should be paying taxes on their rent income (Courtesy of KRA Thika Station Office). These landlords are this study's target population.

### **3.4 Sampling Frame**

Sampling frame consisted of all buildings within Thika Town CBD, which are occupied and evidently operational within the blocks as indicated in the BMS of KRA. This study ignored finished buildings but are not operational and unfinished buildings were treated in the same manner. This is because non-operational buildings are presumed not to be earning any income therefore no income is derived from them.

### **3.5 Sample and sampling technique**

A sample of 50 respondents was extracted out of a population of 500 respondents. According to Mugenda & Mugenda (2003), a sample size that ranges between 10% to 30% is adequate for analysis.  $N/K^{\text{th}}$ :

Where N= the Total Number of the Landlords in Thika Town Central Business District  
 $K^{\text{th}}$  every 10<sup>th</sup> selected and interviewed in a succession from the sample. This formula was adopted by Cummings, (2006) and Oyugi (2008).

The researcher used systematic sampling techniques to obtain information on the areas of the study. As these sampling techniques are the best in finding a true character of the population in question. Besides, this method is very economical as the researcher does not incur the cost he/she would have incurred while dealing with the entire population.

### **3.6 Data collection, methods and Procedure**

The study was focused on the taxpayers who registered for MRI tax from the period when MRI tax was introduced to tax payers. That is from 2015 to 2018. Semi-structured questionnaires were administered to the respondents in data collection. And to consider the quantitative and qualitative data collection requirements, close-ended and open questions for qualitative and quantitative data respectively, was employed. This was adopted by Ndirangu (2014) and Mugenda & Mugenda (2003). Questionnaire with structured and close questions was used to collect data. Likert scale was adopted as well to measure the variables as used by Ndirangu (2014). This is because they were less costly, used less time, required less administration effort inherent in instruments like interviews and useful in obtaining objective data (Marshall and Rossman, 2006). Furthermore, questionnaires had standardized answers that made it simple to compile data. This study targeted either landlord or the caretaker in charge of keeping books of accounts of the building in question.

### **3.7 Pilot Test**

To ascertain validity and reliability, this study will first conduct a pilot test on ten landlords randomly chosen. According to Mugenda & Mugenda (2003), the test will be significant if its reliability is above 0.7. This reliability test will be done with the assistance of the supervisor and Cronbach alpha measure of consistency will be adopted to aid the reliability test as adopted by Mugenda & Mugenda (2003). This will help to gauge the reliability expected. At the same time, the questions and concerns raised by the respondents helped to revise the questionnaires in order to dispel any fears of extreme disparity in data collection.

### 3.8 Data analysis and Presentation

Descriptive statistics that is; mean, percentages, frequencies and standard deviation. The study used inferential statistics, that is, multivariate regression analysis to determine the relationship between the variable (dependent and independent) as used by (Ndirangu 2014). The Statistical Package for Social Sciences (SPSS 20) and was used in data analysis.

The quantitative data was coded since there is a need to group the expected responses into sets. Tables and charts were used as well in presenting the analyzed data accordingly.

The regression analysis will be in form of:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where;  $\beta_0$  - Constant and  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  - Coefficients indicating rate of change of tax compliances as return filing, tax payment process and tax calculation:

Y - Tax Compliance

$X_1$  - Return filing

$X_2$  - Tax payment process

$X_3$  - Tax calculation

$\epsilon$  - Error term

(Adopted from Ndirangu 2014)

The study adopted analysis of variance (ANOVA) test and t-significance to establish the significances of the relationship between tax payer education and rental income tax compliance. The study also applied Pearson Correlation analysis to test the relationship between the two variables by measuring the existence, direction (positive or negative) and magnitude of such linear relationship.

**Table 3.1: Measurement of Variable (Likert Scale)**

<b>Variable</b>	<b>Indicator</b>	<b>Likert Scale</b>
Tax Compliance (dependent)	<ul style="list-style-type: none"><li>• Filing return in time</li><li>• Declaring and paying the correct amount of tax</li><li>• Paying taxes in time</li></ul>	5points
Return filing (independent)	<ul style="list-style-type: none"><li>• Compliance with due date</li><li>• Declaring the correct amount of tax</li></ul>	5points
Tax payment process	<ul style="list-style-type: none"><li>• Compliance with the payment time</li><li>• submitting the right amount of tax</li></ul>	5points
The process of Tax Calculation	<ul style="list-style-type: none"><li>• Time consumed in calculation</li><li>• Taxpayer perception</li></ul>	5points

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

The main objective of the study was to investigate the effects of taxpayer education on monthly rental income compliance in the Thika town central business district.

#### 4.1 Response Rate

The study targeted a sample size of 120 respondents. Out of these 103 filled questionnaires and returned them and this would imply that the study realized 86% response rate. This response was enough to draw conclusion out of since it was satisfactory.

#### 4.2 Data Validity and Reliability

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS version 20 for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted at 0.5 significance level from dichotomous and or multi-point formatted questionnaires or scales.

**Table 4.1 Reliability Coefficients**

Statement	Cronbach's Alpha	No. of Items
MRI Tax Compliance	0.854	5
Return filing	0.865	5
Tax payment process	0.753	5
The Process of tax calculation	0.794	5

From the table 1 above, there is an indication that there is an acceptable reliability coefficient. This is because a higher value confirms that the generated scale is reliable.

Mugenda & Mugenda (2008) indicated 0.7 to be an acceptable reliability coefficient.

Table 4.1 shows that Return filing had the highest reliability ( $\alpha=0.865$ ) followed by Tax Compliance ( $\alpha=0.854$ ), the process of tax calculation ( $\alpha=0.794$ ) and Tax payment process ( $\alpha=0.753$ ). This illustrates that all the five scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda & Mugenda, 2008).

### 4.3 Descriptive Statistics

### 4.4 Descriptive Statistics

**Table 4.1: Descriptive Statistic Results**

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
VAR00003	0					
Q1	105	1	5	3.81	1.352	1.829
Q2	105	2	5	3.99	1.033	1.067
Q3	105	1	5	4.18	.998	.996
Q4	105	1	5	4.11	1.121	1.256
Q5	105	1	5	3.81	1.352	1.829
Q6	105	1	5	4.08	1.062	1.129
Q7	105	1	5	4.18	.978	.957
Q8	105	1	5	4.10	.950	.902
Q9	105	1	5	4.08	1.062	1.129
Q10	105	1	5	3.87	1.359	1.847
Q11	105	1	5	4.05	1.188	1.411
Q12	105	1	5	4.30	1.011	1.022
Q13	105	1	5	4.14	.994	.989
Q14	105	1.00	5.00	4.3714	.89073	.793

This study was conducted to find out the effects of taxpayer education on monthly rental income compliance among the taxpayers in Thika Town CBD. The study focused precisely on the variables namely; return filing, tax calculation and Tax payment process.

#### 4.4.1 The effects of Taxpayer education on return filing of monthly rental income

Having investigated the understanding of the Taxpayers on the easiness of return filing and the ability file returns in time to ascertain if they had been informed of the due dates of filing return, the descriptive results obtained was tabulated as shown.

**Table 4.2: Return Filing on Monthly Rental Income Tax**

<b>Statement</b>	<b>Total Response</b>	<b>Strongly Agree (%)</b>	<b>Agree (%)</b>	<b>Neutral (%)</b>	<b>Disagree (%)</b>	<b>Strongly Disagree (%)</b>	<b>TOTAL</b>
The filing monthly rental income tax return has been made easier with the knowledge of use of iTax platform.	<b>103</b>	19%	31%	12%	24%	14%	<b>100%</b>
With the knowledge of due date of filing returns, it is easier to file returns in time on or before 20 <sup>th</sup> of the month following the month rental income was earned.	<b>103</b>	38%	48%	0%	10%	5%	<b>100%</b>

In the findings whether on the easiness of filing returns with the rolling out of iTax platform and being informed on the existence of the same, 31% of the respondents agreed while 14% strongly disagreed that the process of filing returns was not easy. Furthermore, the study was also sought to know the effect that knowledge of due dates have created with regard to timing of filing of returns. Almost half of the respondents agreed that it is now easier to plan within the stipulated time frame provided. This statement was agreed by 48% of the respondents while 38% strongly agreed. On the other hand 10% and 5% of the

respondents agreed Disagreed and strongly disagreed respectively. These findings were consistent with the findings of Lumumba, et al., (2010).

#### 4.4.2 The effects of Taxpayer Education on the Process of Calculation of Monthly Rental Income Tax payable

<b>Statement</b>	<b>Total Responses</b>	<b>Strongly Agree (%)</b>	<b>Agree (%)</b>	<b>Neutral (%)</b>	<b>Disagree (%)</b>	<b>Strongly Disagree (%)</b>	<b>TOTAL</b>
With monthly Rental income tax, the calculation of tax payable has been made easier by KRA	<b>103</b>	50%	21%	2%	12%	14%	<b>100%</b>
You do not need to hire an expert to help you calculate your monthly rental income tax	<b>103</b>	14%	19%	7%	33%	26%	<b>100%</b>

**Table 4.3: The effects of Taxpayer Education on the Process of Calculation of Monthly Rental Income Tax payable**

In the question on whether monthly rental income tax calculation had been made easier by KRA, half of the responses strongly agreed with this sentiment while 14% strongly disagreed with his statement. However, there was 2% of the respondents who were not sure whether the calculations were easier or difficult. On the other hand 33% of the

respondents disagreed that do not need to hire tax expert to assist them in calculating MRI tax payable. These finding tend to share in the sentiments of research findings of Machogu and Amayi, (2013). Nevertheless, majority disagreed with this statement leaving 7% undecided on whether it was necessary to hire tax expert to help with the computation of MRI tax payable.

#### **4.4.3 Effect of Taxpayer education on the process of payment of Monthly Rental**

##### **Income Tax**

In this respect, almost all taxpayers either agreed or strongly agreed that they do not have to travel to the banks in order pay their MRI taxes. In fact, 50% strongly agreed while 48% agreed, only 2% did disagree with this statement and 2% were not decided whether it was still necessary to visit banks every month to remit their MRI. Check the table below.

On the question of whether it was easier to use MPESA and an alternative to bank, and whether its usage was marred with complexity, again almost all the respondents were in agreement. In the table below, 38% strongly agreed that it was easy and less complex while 48% registered their satisfaction with the MPESA option to be agreeable.

These findings are in agreement with the findings of Ndirangu (2014).

<b>Statement</b>	<b>Total</b>	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)	<b>TOTAL</b>
A taxpayer does not need to go to the bank in order to make their payment on monthly rental income tax.	<b>103</b>	50%	45%	2%	2%	0%	<b>100%</b>
The payment process through MPESA to pay tax is easier and less complex as compared to the other available options	<b>103</b>	38%	48%	0%	10%	5%	<b>100%</b>
A taxpayer cannot just take the tax payable amount in cash to the nearest Tax Station or iTax Support Centres.	<b>103</b>	81%	19%	0%	0%	0%	<b>100%</b>
I remit my MRI tax on or before 20th of the month following the month of earning my rental income	<b>103</b>	14%	43%	12%	17%	14%	<b>100%</b>

**Table 4.4 Effect of Taxpayer education on the process of payment of Monthly Rental Income Tax**

#### **4.4.4 Monthly Rental Income Compliance**

Most of the Landlords agreed that they remit their MRI taxes every month; 43% of them agreed while 14% strongly agreed with the statement that they have been filing their monthly returns on their monthly rental incomes. About 17% and 14% disagreed and

strongly disagreed fully to noncompliance. This was a noted voluntary noncompliance that was exhibited in this scenario. Ndirangu (2014) findings on voluntary noncompliance is in agreement with this particular findings.

## 4.5 Inferential Analysis

### 4.5.1 Correlation Analysis

In this section, this study sought to find out the relationship between independent variables (return filing, tax calculation process and tax payment process) and the dependent variable Monthly rental income compliance.

To obtain the findings a multiple correlation analysis was conducted as shown the table below:

#### Correlation analysis

		<b>Return Filing</b>	<b>Payment Process</b>	<b>Tax calculation</b>	<b>Rental income tax compliance</b>
<b>Return Filing</b>	Pearson Correlation	1			
<b>Payment Process</b>	Pearson Correlation	.764**	1		
<b>Tax calculation</b>	Pearson Correlation	.737**	.854**	1	
<b>Rental income tax compliance</b>	Pearson Correlation	.795**	.865**	.871**	1

This was a simplified correlation analysis which sought to investigate the relationship between the variables under study.

**a) Correlation analysis between Dependent Variable(MRI Tax Compliance and the Independent Variables**

There was a positive correlation between filing of MRI tax returns and the MRI Tax compliance. The correlation between the two variables is a positive one ( $r = -0.795$ ,  $p < .0001$ ). The p-value was more than the conventional 0.05. This implies there is a strong significant statistical correlation between the two variables. The correlation between the dependent variable and the independent variable are all positive Tax payment process ( $r = 0.865$ ,  $p < .0001$ ); Tax calculation process ( $r = 0.871$ ,  $p < .0001$ ). There is statistical significance between these two variables; which is a positive and has a strong statistical significance on the dependent variable. These findings agree with the findings by Mukabi, (2014).

**b) Correlation between Independent Variables**

Generally, there is a notable strong positive correlation among the independent variables. For instance, there is a positive relationship between Tax calculation process and Return filing ( $r = 0.737$   $p < .0001$ ) at the same time there a positive correlation between Tax payment process and Tax Calculation process ( $r = 0.854$ ,  $p < .0001$ ). On the other hand there is a noted strong positive correlation, ( $r = 0.764$ ,  $p < .0001$ ) between Return filing and tax payment process. All these implies that there was statistical significance among the independent variables. This finding of positive correlations between independent variables is share by the findings of Misra, (2004).

## 4.5 Regression Analysis

### 4.5.1 Model Summary

**Table 4.5: Regression Analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.930 <sup>a</sup>	.864	.859	.270

a. Predictors: (Constant), Tax calculation, payment process, return filing

From the above summary table of the regression analysis;

We found out that the R-square values presents very strong relationship between the dependent variable (Monthly Rental income compliance) and the independent variables. R-square 0.864 implies that 86.4% of the variability of the rental income tax compliance is explained by the three independent variables. The Adjusted R-Square which is 0.85.9 indicates the number of models that can be used to predict the same outcomes of the dependent variable. And since the higher R-square the better, the outcome under this analysis has a very strong statistical significance.

#### 4.5.2 Analysis of Variance (ANOVA)

##### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45.538	4	11.385	155.905	.000 <sup>b</sup>
	Residual	7.156	98	.073		
	Total	52.694	102			

a. Dependent Variable: Rental income tax compliance

b. Predictors: (Constant), Tax calculation, payment process, return filing

##### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.394	.167		2.366	.020
	Return Filing	.137	.065	.134	2.111	.037
	Payment Process	.157	.077	.173	2.047	.043
	Tax calculation	.254	.080	.259	3.181	.002

a. Dependent Variable: Rental income tax compliance

Analysis of Variance's (ANOVA) F-test was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between variables (dependent and independent variables); hence, helping in bringing out the significance of the regression model.

From the summary table above, the ANOVA table indicates P-value for overall F-tests less than alpha which 0.05. Therefore, with these outcomes, we can therefore say that the regression models were statistically significant in explaining the effects of taxpayer education on monthly rental income.

### 4.5.3: Regression Coefficients

From the table above,

- a) Dependent Variable: Monthly Rental Income Tax Compliance
- b) Independent Variables: return filing; Tax Calculation process; tax payment process

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$\text{MRI-TC} = 0.394 + 0.137\text{RF} + 0.254\text{TCP} + 0.157\text{TPP}$$

### 4.6 Discussions on key Findings

This study sought to establish the effects of taxpayer education on monthly rental income tax in Thika Town CBD. The research study based on the empirical evidence shows that the variables of the study, i.e. return filing, tax calculation and the tax payment process have direct effect on individual tax compliance with regard to monthly rental income tax compliance as well as other tax heads. These findings are in direct agreement with previous findings of Hastuti (2014) and, Ndirangu (2014).

#### 4.6.1 Return Filing and Monthly Rental Income Compliance

The study established that for a taxpayer to file their tax returns correctly and in time, they must have the knowledge on how the tax system works. At the same time, they must be technologically sound to operate the tax Kenyan tax system. This is because of the iTax system that is electronically operated. Most of the Landlords in Thika Town CBD are advanced in age hence filing a technologically based tax system would require a level of education to operate. Therefore, this most of the times result to involuntary noncompliance. These findings of Kuria, Ngumi and Rugami (2013) asserts that illiteracy among taxpayers is one of the major causes of involuntary noncompliance because the system is complex and the legal framework in which taxation operate in Kenya can only be interpreted by tax professionals. Hence, they resent the tax system

and takes advantage of any noncompliance opportunity that they get. The study established that KRA must bear the responsibility of educating the landlords on how and when to correctly file returns. This will avert chances of voluntary noncompliance.

#### **4.6.2 Tax Payment Process and Monthly Rental Income Compliance**

The study findings established the influence of tax payment process as a demotivating factor in achieving the tax compliance. For instance, there are different modes of payments e.g., by bank or mobile money. But to complete the process, one must travel to the banks or load up money in their mobile accounts. Both require money due to extra charges in transport and services. Another aspect of payment process is compliance with the due date of tax payment. Most landlords find it difficult to comply with the stipulated due dates besides the complexity of the tax system which they must contend with. The study established that an elaborate program to educate taxpayers on the tax payment process will not only motivate the taxpayers towards compliance, but it will also seal loopholes for involuntary noncompliance.

Nevertheless, it was not the intention of this study to ascertain the honesty of the taxpayers in paying the correct amount of tax. At the same time, lack of requisite understanding and knowledge was established as major factor in shaping the landlords' attitude and commitment to remitting the correct amount of tax and within the stipulated time as required by the law.

#### **4.6.3 Tax Calculation Process and Monthly Rental Income Compliance**

The study findings established the role of tax calculation in promoting or discouraging tax compliance among the landlords. As stipulated in the Tax Procedures Act 2015, the

taxpayers (landlords) are required to do self-assessment and calculate the required tax and remit it to the tax authority. For this new tax payment system to work well the taxpayers require a certain degree of tax knowledge. The Self-assessment System (SAS) also opened a window for tax avoidance and fraud. As Hastuti (2014) asserts, it is the civic duty of the taxpayers to remit the taxes to the authorities; this may not be achieved too due to selfishness that robs the taxpayers a sense of civic duty. The study found out that taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. This will in turn help to arouse the sense of civic duty among taxpayers.

#### **4.6.4 Monthly Rental Income Compliance**

This tax head was introduced by Tax Procedures Act 2015. Being new and not so many studies have been done to ascertain its level of compliance, this research sought to find out how vast the knowledge of this tax head among the landlords is. From the findings, we found out that 21% of the respondents admitted not to be tax compliant. This is a large number basing our argument on the fact that the study was only conducted from a sample of respondents drawn from Thika Town CBD only. From the findings, the variables could not give a satisfactory statistical significance to show that taxpayers' level of knowledge with regard to MRI Tax is limited. However, it is important to state that these findings were informative enough to point that level of MRI Tax compliance is influence only 5% change in the independent variables that were measured and results analyzed to convince us not to reject null hypothesis.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents discussions of the key findings presented in chapter four, conclusions drawn based on such findings and recommendations there-to. This chapter will thus be structured into conclusion, recommendations and areas for further research.

#### **5.2 Summary Findings**

##### **5.2.1 Taxpayer education on Return Filing**

Having ascertained a confidence level of 95% statistical level of significance, this study findings established that a unit increase in the frequency of return filing periods will lead to 0.137 increase in monthly rental income tax compliance. This implies that the pressure piled on the taxpayers by the laws to file returns monthly with a strict deadline would positively impact the Landlords tax compliance level. In addition to this, the aspect of filling in online excel sheet that would be uploaded in the iTax platform requires the taxpayer to be well acquainted with the characters in the sheet so that they conversant with the process. All these impede the return filing process. These findings are consistent with the study done by Machogu and Amayi(2013), which underlined the plight of taxpayers in contending with meeting the deadlines of filing returns and the cost of doing the same. For taxpayers who are illiterate with respect to tax laws, especially the return filing due dates, there is a real struggle in filing returns which eventually results to involuntary noncompliance. Xin et al., (2015) states that there is a positive relationship between tax knowledge and tax return filing using a correlation test.

### **5.2.2 Taxpayer education on Tax Payment Process**

Tax payment process was established to be statistically significant at 95% level of confidence. A unit increase in processes involved in paying taxes would lead to a 0.157 increase in tax compliance. This is implying that any development in the processes of paying taxes would increase level of compliance. This implies the tax payment process is not different from other payment processes and it would affect the taxpayer's level of compliance. Having said this, the study findings also gave an impression that taxpayers tend to embrace the electronic and mobile transactions and hence the positive correlation between this variable and the dependent variable.

### **5.2.3 Taxpayer education Tax Calculation Process**

Tax calculation process was found to be positively affecting tax compliance among landlords. At 95% confidence level. A unit increase in processes involved in paying taxes would lead to a 0.254 increase in tax compliance. It was established that the self-assessment system imposed on taxpayers by KRA gives room for voluntary noncompliance. The taxpayer was found to at times find legal ways to pay less taxes compared to their earnings. At times some do not pay completely, hence filing nil returns yet they might have earned a taxable income during the month. As Ndirangu (2014) and Hastuti (2014) stipulates, some taxpayers tend to file less taxes since they use the loopholes in the tax laws to their own advantage. For example, deducting allowable expenses that were not incurred is legal because the taxpayers are given the freedom to assess themselves. This act of tax avoidance has denied the government a substantial amount of revenue. Hence, tax knowledge can also impact tax compliance negatively and in this case a unit increase in tax calculation process would result in a 0.086 decrease in tax compliance.

## **5.3 Conclusion**

### **5.3.1 Return Filing**

As discussed in chapter four above, the study comfortably concluded that the taxpayer education on process of filing returns positively affects tax compliance among the landlords. This is because the process involves complex characters that a taxpayer would need to be educated on before they use the process. Hence, taxpayers are for to hire tax professionals to help them file their returns. In addition to this and other costs involved, pressure that comes with meeting the filing deadlines also result to involuntary noncompliance. Hence, it will be on the benefit of KRA to educate taxpayers on these simple but complex process of filing return so at to close the window of involuntary noncompliance.

### **5.3.2 Tax Payment Process**

There was also a noted positive correlation between the tax payment process and tax compliance among the landlords. KRA has rolled out a non-cash mode of payment. Therefore, a taxpayer can pay taxes at the comfort of their home using mobile money or use electronic banking system hence a taxpayer does not need to go to the KRA offices to remit taxes. This has eased taxpayers work and this is the essence of the positive correlation. The other technicality comes in on whether the taxpayer remits the correct amount of not. But as mentioned earlier, this study's objective was not to assess the honesty of the taxpayers with respect to the amount of tax they remit. As Hastuti (2014) states, it is the civic duty of the taxpayers to remit the correct amount of taxes to the revenue authority. At the same time, it is the responsibility of KRA to educate the taxpayers on the significance of taxes, how they are used and the side effects of not remitting the correct amount of taxes as required by the law.

### **5.3.3 Tax Calculations Process**

The study established a significant positive effect of taxpayer education on tax calculation process on tax compliance. This objective was meant to test the attitude and the perception of the taxpayer towards tax calculation. As seen, the study found a positive correlation between education taxpayers on tax calculation process and tax compliance. The taxpayers who are illiterate have a preempted notion that the calculation process require individuals who have knowledge of numbers to tackle. At the same time, those who can calculate also try to use ways and means to pay less taxes than they should. For monthly rental income, the rate is ten percent of the total rental earning of the month of the income and no deductions allowed. And because there are two regimes of rental income, most landlords are not aware. Therefore, KRA must come in to educate the taxpayers on how to calculate and arrive at the require amount of tax from rental income tax.

### **5.4 Recommendations**

The KRA through the government should initiate elementary tax education right from primary schools through to secondary levels so that students grow up with the knowledge of their civic duty as taxpayers and the reasons why they must pay taxes. This will allow the learners to get familiar with the return filing process, reasons they must have KRA Pins once they are adults.

KRA should revise the system of self-assessment since the study realized a possibility of illiterate landlords who were assisted to understand the questions poised during this study. This will help seal loopholes that are presented by voluntary and involuntary noncompliance situations at the same time reduce cases of taxpayers being exploited fraudulent assistants.

KRA also should enhance civic education on matters taxation at the same time, they should encourage public participation while enacting the tax laws so that the taxpayers own the process. This will mitigate the risks posed by tax evasion and tax avoidance as well as raise public awareness on matters of taxation.

#### **5.4 Limitations of the Study**

The main limitation of this study concentrated on the Landlords whose premises were within the Thika Town CBD. And only those premises whose were meant for residential purposes. The inability of not being able to reach all the landlords may not bring out the true picture of the situation in the whole country regarding the effects of taxpayer education on monthly rental income tax compliance.

Time available for the exhaustive study was also very limited. The study might have not captured or overlooked vital views due to limited time.

The cost involve in this study was also very much impactful. Moving to the research area and engaging helping hand both were costly.

#### **5.5 Suggestions for Further Research**

The study suggests that in future similar research should be done in the whole country to establish the effectiveness of taxpayer education among landlords. This will also help ascertain the effects of taxpayer education on monthly rental income tax countrywide at the same time mitigate the noncompliance scenario that denies the government millions of revenues.

The future studies could be conducted to establish the easier and cheaper mode of paying taxes either monthly rental income or tax annual rental income tax.

## REFERENCES

- Afield W. E., (2014). *A Market for Tax Compliance*. Georgia State University College of Law, Georgia
- Cummings, L. M. (2006). Natural speech act data versus written questionnaire data: How data collection method affects speech act performance. *Speech acts across cultures: Challenges to communication in a second language*, 11, 65.
- Deyganto, K. O. (2018). Factors Influencing Taxpayers Voluntary Compliance Attitude with Tax System: Evidence from Gedeo Zone of Southern Ethiopia. *Universal Journal of Accounting and Finance*, 6(3), 92–107. doi: 10.13189/ujaf.2018.060302
- Filing of Rental Taxes. Retrieved from <https://renditionproperties.com/filing-of-rental-taxes/Financial Act 2016>
- Frey, B. S. (1998). Tax compliance policy reconsidered. *Homo oeconomicus*, 15(1), 27-44.
- Gitaru K., (2017). *The Effects of Taxpayer Education on Tax Compliance in Kenya (a case study of SME's in Nairobi Central Business District)*. Munich Personal RePEc Archive
- Guzman, A. T. (2003). *A Compliance Based Theory of International Law*. Retrieved September 22, 2013, from [www.inece.org](http://www.inece.org): <http://www.inece.org/mlw/>
- Hastuti R., (2014). *Tax Awareness and Tax Education: A Perception of Potential Taxpayers*. *International Journal of Business, Economics and Law*, Vol. 5, Issue 1
- Income Tax Act Cap 470 of the Laws of Kenya
- Ionel L., (2013). *The Role of Taxpayers' Tax Education in Fighting Tax Evasion*. *GIDNI (Economy and Management Section)*
- Kasipillai, J. A. (2003). Tax compliance attitude and behaviour: *Gender & ethnicity differences of Malaysian taxpayers.*, 1-12.

- Kirchler, E. (2007). *The economic psychology of tax behaviour*. United Kingdom: Cambridge University Press.
- Kuria K., Ngumi P. and Rugami J., (2013). *Factors affecting rental income tax compliance among landlords in Kilifi municipality in Kenya*. Prime Journal of Business Administration and Management (BAM)ISSN: 2251-1261. Vol. 3(5), pp. 997-1008
- Lumumba O. M., Migwi S. W. &Magutu P.O., (2010). *Taxpayers' Attitudes and Tax Compliance Behaviour in Kenya*. African Journal of Business & Management (AJBUMA) <http://www.aibuma.org/journal/index.htm> Vol. 1
- Machogu, C.G., &Amayi, J.B. (2013). *The Effect of Taxpayer Education on Voluntary Tax Compliance, Among SMEs in Mwanza City- Tanzania*. International Journal of Marketing, Financial Services & Management Research, 2(8), 12-23.
- Misra R., (2004). *The Impact of Taxpayer Education on Tax Compliance in South Africa*. University of Kwazulu, Natal
- Monyo, J. W. (2013). [http://scholar.mzumbe.ac.tz/bitstream/handle/11192/890/MSc\\_A &F\\_Joseph Wilson Monyo\\_2013.pdf?sequence=1](http://scholar.mzumbe.ac.tz/bitstream/handle/11192/890/MSc_A&F_Joseph_Wilson_Monyo_2013.pdf?sequence=1). Retrieved from [http://scholar.mzumbe.ac.tz/bitstream/handle/11192/890/MSc\\_A &F\\_Joseph Wilson Monyo\\_2013.pdf?sequence=1](http://scholar.mzumbe.ac.tz/bitstream/handle/11192/890/MSc_A &F_Joseph Wilson Monyo_2013.pdf?sequence=1)
- Mugenda, O. M., &Mugenda, A. G., (2003). *Research methods: Quantitative and qualitative Approaches*. Nairobi: African Centre for Technology Studies.
- Mukabi D. N. (2014). *Factors Influencing Turnover Tax Compliance In The Kenya Revenue Authority Domestic Taxes Department in Nairobi County*. University of Nairobi
- Mukhlis I., Utomo S. H. &Soesetio Y., (2015). *he Role of Taxation Education on Taxation Knowledge and Its Effect on Tax Fairness as well as Tax Compliance on*

*Handicraft SMEs Sectors in Indonesia*. International Journal of Financial Research, Vol. 6, No. 4; 2015

Mwangi, P. C. (2014). Factors influencing tax compliance among small and medium enterprises in Nairobi's industrial area, Kenya. *Unpublished MA Project*, 1-38.

Ndirangu M. N., (2014). *The Effect of Tax Payer Education on Value Added Tax Compliance by Motor Vehicle Part Dealers in Nairobi Central Business District*. University of Nairobi, Nairobi.

Perez, W. (2018, December 21). Understand the Basics of Income Tax Laws. Retrieved from <https://www.thebalance.com/taxes-101-five-basic-ideas-3193486>

OECD (2004). *Compliance Risk Management: Managing and Improving Tax Compliance*. Forum on Tax Administration,

Olowookere, J. K., & Fasina, H. T. (2013) *Taxpayers' Education: A Key Strategy in Achieving Voluntary Compliance in Lagos State, Nigeria*. European Journal of

Oyugi, O. N. (2008). *The Effectiveness of Taxpayer Education as a Revenue Collection Strategy KRA. A Case study of Nairobi Region*, 1-34. *Business and Management*, 5(10), 146-155.

Saleemi N.A., (2005). *Taxation simplified*. East African Education Publishers Nairobi.

Suppes, P. (1974). The place of theory in educational research. *Educational Researcher*, 3(6), 3-10

Tax Procedures Act 2015

Xin M. K., Khai K. G., Fong L. S., Chen N. H., (2015). *Factors Affecting Individual Taxpayers'*

*Compliance in Malaysian Tax Filing System*. The International Journal Of Business & Management, Vol 3 Issue 9

## **APENDICES**

### **Appendix I: Questionnaire**

My name is Kennedy Osiyo, a Post Graduate Diploma Student at Kenya School of Revenue Administration (KESRA). I am undertaking academic research on the “EFFECTS OF TAXPAYER EDUCATION ON MONTHLY RENTAL INCOME TAX COMPLIANCE IN THIKA TOWN CENTRAL BUSINESS DISTRICT.”

The following questionnaire has been designed to capture the views and information from target respondents for the purpose of this study. The collected data will be analysed and appropriate recommendations will be made to benefit taxpayers with regard to taxation. The information acquired from the respondents will be handled with utmost confidentiality. Therefore, I implore you to spare a few of your minutes to answer the following questions honestly and as objective as possible.

Your cooperation is highly appreciated.

### **Instructions**

Please read the following questions and either answer them by filling blank spaces or ticking the check boxes.

### **SECTION A: BIO DATA**

1. Gender

Male [ ]

Female [ ]

2. The time period in years you have taken in the Rental income business.

Below 2years..... [ ]

3-5 years..... [ ]

6-10 years..... [ ]

10 years and above..... [ ]

3. Tax Registration

a) Do you have KRA Pin?.....Yes [ ] No [ ]

b) Is your pin migrated to iTax?.....Yes [ ] No [ ]

c) Do you file Monthly Rental Income Tax?.....Yes [ ] No [ ]

## SECTION B

### 1. TAXPAYER EDUCATION ON RETURN FILING OF MONTHLY RENTAL INCOME TAX

Evaluate the following statements and tick where appropriate under the choices below.

Where; 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree. 5- Strongly Agree

	Statement	1	2	3	4	5
1	The filing monthly rental income tax return has been made easier with the knowledge of use of iTax platform.					
2	With the knowledge of due date of filing returns, it is easier to file returns in time on or before 20 <sup>th</sup> of the month following the month rental income was earned.					
3	With the Knowledge on how the KRA website operated, I am able to file and pay my taxes timely and correctly					
4	With the Knowledge on tax return filing I have improved my filing and payment of taxes.					

**2. TAXPAYER EDUCATION ON THE PROCESS OF CALCULATING TAX  
PAYABLE ON RENTAL INCOME TAX EARNED**

Evaluate the following statements and tick where appropriate under the choices below.

**Where; 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree. 5- Strongly Agree**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
5	With monthly Rental income tax, the calculation of tax payable has been made easier by KRA					
6	You do not need to hire an expert to help you calculate your monthly rental income tax					
7	You do not need to visit KRA offices to seek help in calculating your monthly rental income tax					
8	You do not need to visit the cyber of for electronic tax registration since I understand the procedures					

**3. TAXPAYER EDUCATION ON RENTAL INCOME TAX PAYMENT  
PROCESS**

Evaluate the following statements and tick where appropriate under the choices below.

**Where; 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree. 5- Strongly Agree**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>9.</b>	A taxpayer does not need to go to the bank in order to make their payment on monthly rental income tax.					
<b>10.</b>	The payment process through MPESA to pay tax is easier and less complex as compared to the other available options					
<b>11.</b>	A taxpayer cannot just take the tax payable amount in cash to the nearest Tax Station or iTax Support Centres.					

**4. SECTION C: MONTHLY RENTAL INCOME COMPLIANCE**

Evaluate the following statements and tick where appropriate under the choices below.

**Where; 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree. 5- Strongly Agree**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>12.</b>	I remit my MRI tax on or before 20 <sup>th</sup> of the month following the month of earning my rental income					
<b>13</b>	I declare the correct monthly rental income					
<b>14</b>	I file my returns on time and as required by law					

THANK YOU FOR YOUR ASSISTANCE AND COOPERATION.